

Assembly Bill No. 2064

Passed the Assembly August 19, 2014

Chief Clerk of the Assembly

Passed the Senate August 14, 2014

Secretary of the Senate

This bill was received by the Governor this _____ day
of _____, 2014, at _____ o'clock ____M.

Private Secretary of the Governor

CHAPTER _____

An act to amend Sections 10089.6 and 10089.26 of, to amend, add, and repeal Sections 10083 and 10086 of, to amend, repeal, and add Section 10089.28 of, and to add Section 10089.42 to, the Insurance Code, relating to earthquake insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 2064, Cooley. Earthquake insurance: mandatory offer.

Existing law prohibits a policy of residential property insurance from being issued or delivered or initially renewed in this state unless the named insured is offered coverage for loss or damage caused by an earthquake, as provided, and, if the offer of earthquake coverage is accepted, requires the insurer to provide certain disclosures based on whether the policy was issued by the California Earthquake Authority (CEA).

Existing law created the CEA, to be administered under the authority of the Insurance Commissioner, and authorized it to transact insurance in this state as necessary to sell policies of basic residential earthquake insurance in the manner provided. The CEA has no authority to transact any other type of insurance business. The CEA's operating expenses are capped at 3% of its premium income.

This bill would revise and recast these provisions by revising the disclosure language an insurer is required to use in offering earthquake coverage, making the contents of that disclosure language dependent upon whether the insurer is a member of the CEA or not, and by requiring insureds to be provided with specified disclosures with regard to coverage of losses, the CEA's liability limitations, and premiums concurrent with the issuance or renewal by the CEA of a residential earthquake insurance policy. The bill would require a participating insurer, at least once each year, to provide each of its residential property insureds with marketing documents produced at the CEA's expense. The bill would make these provisions operative on January 1, 2016.

This bill would increase the cap on the CEA's operating expenses to not more than 6% of its premium income, and exclude certain expenses and costs from being classified as operating expenses.

This bill also would incorporate additional changes in Section 10083 of the Insurance Code, as amended by Section 12 of Chapter 369 of the Statutes of 2013, proposed by AB 2735, to be operative if AB 2735 and this bill are both enacted and become effective on or before January 1, 2015, and this bill is enacted last.

This bill would incorporate into Section 10083 as proposed to be added to the Insurance Code changes proposed by AB 2735, to be operative if AB 2735 and this bill are both enacted and become effective on or before January 1, 2015.

This bill also would incorporate additional changes in Section 10083 of the Insurance Code, as added by Section 13 of Chapter 369 of the Statutes of 2013, proposed by AB 2735, to be operative if AB 2735 and this bill are both enacted and become effective on or before January 1, 2015, and this bill is enacted last.

The people of the State of California do enact as follows:

SECTION 1. Section 10083 of the Insurance Code, as amended by Section 12 of Chapter 369 of the Statutes of 2013, is amended to read:

10083. (a) The offer of coverage required by Section 10081 may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. If the offer of coverage is mailed to the named insured or applicant, it shall be mailed to the mailing address shown on the policy of residential property insurance or on the application. The offer may be made electronically pursuant to Section 38.5. The offer of earthquake coverage shall contain the following language in at least 10-point boldface type:

“YOUR POLICY DOES NOT PROVIDE COVERAGE AGAINST THE PERIL OF EARTHQUAKE.

CALIFORNIA LAW REQUIRES THAT EARTHQUAKE COVERAGE BE OFFERED TO YOU AT YOUR OPTION.

WARNING: THESE COVERAGES MAY DIFFER SUBSTANTIALY FROM AND PROVIDE LESS PROTECTION THAN THE COVERAGE PROVIDED BY YOUR HOMEOWNERS’ INSURANCE POLICY. THERE ARE EXCLUSIONS AND LIMITATIONS SUCH AS OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES,

AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM CONTAINS ONLY A GENERAL DESCRIPTION OF COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS OF YOUR POLICY WILL DETERMINE WHETHER A PARTICULAR LOSS IS COVERED AND, IF SO, THE AMOUNT PAYABLE.

THE COVERAGE, SUBJECT TO POLICY PROVISIONS, MAY BE PURCHASED AT ADDITIONAL COST ON THE FOLLOWING TERMS:

(A) AMOUNT OF DWELLING COVERAGE: _____

(B) APPLICABLE DEDUCTIBLE: _____ IF YOUR LOSS IS BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY PAYMENT FROM YOUR COVERAGE.

YOUR INSURANCE COMPANY OR AGENT WILL PROVIDE WRITTEN NOTICE AS TO HOW THE DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR COVERAGE, THE INSURED VALUE OF YOUR COVERAGE, OR THE REPLACEMENT VALUE OF YOUR COVERAGE.

(C) CONTENTS COVERAGE: _____

IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE FOR THE DWELLING, YOU WILL NOT RECEIVE ANY PAYMENT FOR THIS COVERAGE.

YOUR INSURANCE COMPANY OR AGENT WILL PROVIDE WRITTEN NOTICE AS TO HOW THE DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE PURSUANT TO THIS COVERAGE.

(D) ADDITIONAL LIVING EXPENSES: _____

(E) RATE OR PREMIUM: _____

YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE COVERAGE WITHIN 30 DAYS FROM THE DATE OF MAILING OF THIS NOTICE OR IT SHALL BE CONCLUSIVELY PRESUMED THAT YOU HAVE NOT ACCEPTED THIS OFFER.

THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY US.”

(b) When the insurer, agent, or broker establishes delivery of the disclosure form by obtaining the signature of the applicant or

insured, or when an insurer, agent, or broker provides the applicant with the disclosure form and the applicant does not return a signed acknowledgment of receipt within 60 days of the date it was provided, there shall be a conclusive presumption that the insurer, agent, or broker has complied with the disclosure requirements of this section.

(c) The offer may contain additional provisions not in conflict with or in derogation of this section.

(d) The commissioner may only approve modifications to the language prescribed in subdivision (a) if all of the following conditions are met:

(1) The modifications are not in conflict with or in derogation of any provision of this section or Section 10089.

(2) The modifications are necessary to ensure that the disclosure statement accurately reflects the coverage actually provided by the policy being offered.

(3) The modifications are strictly limited to necessary changes so that the modified disclosure statement is otherwise identical to the disclosure statement prescribed in this section.

(e) Use of the language prescribed by this section, or modified language approved pursuant to subdivision (d), shall constitute compliance with the requirements of Section 10081 by an insurer subject thereto.

(f) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

SEC. 1.5. Section 10083 of the Insurance Code, as amended by Section 12 of Chapter 369 of the Statutes of 2013, is amended to read:

10083. (a) The offer of coverage required by Section 10081 may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. If the offer of coverage is mailed to the named insured or applicant, it shall be mailed to the mailing address shown on the policy of residential property insurance or on the application. The offer may be made electronically pursuant to Section 38.5. The offer of earthquake coverage shall contain the following language in at least 10-point boldface type:

“YOUR POLICY DOES NOT PROVIDE COVERAGE AGAINST THE PERIL OF EARTHQUAKE.

CALIFORNIA LAW REQUIRES THAT EARTHQUAKE COVERAGE BE OFFERED TO YOU AT YOUR OPTION.

WARNING: THESE COVERAGES MAY DIFFER SUBSTANTIALLY FROM AND PROVIDE LESS PROTECTION THAN THE COVERAGE PROVIDED BY YOUR HOMEOWNERS’ INSURANCE POLICY. THERE ARE EXCLUSIONS AND LIMITATIONS SUCH AS OUTBUILDINGS, SWIMMING POOLS, MASONRY FENCES, AND MASONRY CHIMNEYS. THIS DISCLOSURE FORM CONTAINS ONLY A GENERAL DESCRIPTION OF COVERAGES AND IS NOT PART OF YOUR EARTHQUAKE INSURANCE POLICY. ONLY THE SPECIFIC PROVISIONS OF YOUR POLICY WILL DETERMINE WHETHER A PARTICULAR LOSS IS COVERED AND, IF SO, THE AMOUNT PAYABLE.

THE COVERAGE, SUBJECT TO POLICY PROVISIONS, MAY BE PURCHASED AT ADDITIONAL COST ON THE FOLLOWING TERMS:

(A) AMOUNT OF DWELLING COVERAGE: ____

(B) APPLICABLE DEDUCTIBLE: ____ IF YOUR LOSS IS BELOW THIS AMOUNT, YOU MAY NOT RECEIVE ANY PAYMENT FROM YOUR COVERAGE.

YOUR INSURANCE COMPANY OR AGENT WILL PROVIDE WRITTEN NOTICE AS TO HOW THE DEDUCTIBLE APPLIES TO THE MARKET VALUE OF YOUR COVERAGE, THE INSURED VALUE OF YOUR COVERAGE, OR THE REPLACEMENT VALUE OF YOUR COVERAGE.

(C) CONTENTS COVERAGE: ____

IF YOUR LOSS DOES NOT EXCEED THE DEDUCTIBLE FOR THE DWELLING, YOU WILL NOT RECEIVE ANY PAYMENT FOR THIS COVERAGE.

YOUR INSURANCE COMPANY OR AGENT WILL PROVIDE WRITTEN NOTICE AS TO HOW THE DEDUCTIBLE APPLIES TO THE AMOUNT YOU RECEIVE PURSUANT TO THIS COVERAGE.

(D) ADDITIONAL LIVING EXPENSES: ____

(E) RATE OR PREMIUM: ____

YOU MUST ASK THE COMPANY TO ADD EARTHQUAKE COVERAGE WITHIN 30 DAYS FROM THE DATE OF MAILING OF THIS NOTICE OR IT SHALL BE CONCLUSIVELY PRESUMED THAT YOU HAVE NOT ACCEPTED THIS OFFER.

THIS COVERAGE SHALL BE EFFECTIVE ON THE DAY YOUR ACCEPTANCE OF THIS OFFER IS RECEIVED BY US.”

(b) When the insurer, agent, or broker establishes delivery of the disclosure form by obtaining the signature of the applicant or insured, or when an insurer, agent, or broker provides the applicant with the disclosure form and the applicant does not return a signed acknowledgment of receipt within 60 days of the date it was provided, there shall be a conclusive presumption that the insurer, agent, or broker has complied with the disclosure requirements of this section.

(c) The offer may contain additional provisions not in conflict with or in derogation of this section.

(d) The commissioner may only approve modifications to the language prescribed in subdivision (a) if all of the following conditions are met:

(1) The modifications are not in conflict with or in derogation of any provision of this section or Section 10089.

(2) The modifications are necessary to ensure that the disclosure statement accurately reflects the coverage actually provided by the policy being offered.

(3) The modifications are strictly limited to necessary changes so that the modified disclosure statement is otherwise identical to the disclosure statement prescribed in this section.

(e) Use of the language prescribed by this section, or modified language approved pursuant to subdivision (d), shall constitute compliance with the requirements of Section 10081 by an insurer subject thereto.

(f) (1) If an insurer issues or causes to be issued a policy with earthquake coverages other than the coverages specified in subdivisions (a) and (b) of Section 10089, pursuant to a rate application approved by the commissioner in accordance with subdivision (c) of Section 10089, no further or other offer of earthquake coverage as specified in subdivisions (a) and (b) of

Section 10089 and no further or other notice of noncoverage is required by the insurer if both of the following apply:

(A) A renewal of that policy is offered.

(B) A written notice is provided with that renewal regarding additional earthquake coverage that is available.

(2) The form of the written notice in paragraph (1) shall be filed with the commissioner at least 30 days before its first use. The form shall not be used if the commissioner disapproves the form of the written notice within that period for being misleading or incomplete.

(g) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

SEC. 2. Section 10083 is added to the Insurance Code, to read:

10083. (a) The offer of coverage required by Section 10081 may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. If the offer of coverage is mailed to the named insured or applicant, it shall be mailed to the mailing address shown on the policy of residential property insurance or on the application. The offer may be made electronically pursuant to Section 38.5.

(1) If the offer is made by a nonparticipating insurer as defined in Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(2) If the offer is made by a participating insurer as defined by Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

If you choose not to accept this offer within the 30-day period, you may apply for earthquake coverage at a later date.

Your insurance company contracts with the California Earthquake Authority (CEA) to offer earthquake insurance to its customers. For an additional premium, you can choose CEA coverage options such as higher limits for Contents or Additional Living Expenses, increased building code upgrade limits, or a lower deductible. You can also choose to buy certain CEA coverages separately.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(b) When the insurer, agent, or broker establishes delivery of the disclosure form by obtaining the signature of the applicant or insured, or when an insurer, agent, or broker provides the applicant with the disclosure form and the applicant does not return a signed acknowledgment of receipt within 60 days of the date it was provided, there shall be a conclusive presumption that the insurer, agent, or broker has complied with the disclosure requirements of this section.

(c) The offer may contain additional provisions not in conflict with or in derogation of this section.

(d) The commissioner may only approve modifications to the language prescribed in subdivision (a) if all of the following conditions are met:

(1) The modifications are not in conflict with or in derogation of any provision of this section or Section 10089.

(2) The modifications are necessary to ensure that the disclosure statement accurately reflects the coverage actually provided by the policy being offered.

(3) The modifications are strictly limited to necessary changes so that the modified disclosure statement is otherwise identical to the disclosure statement prescribed in this section.

(e) Use of the language prescribed by this section, or modified language approved pursuant to subdivision (d), shall constitute compliance with the requirements of Section 10081 by an insurer subject to the requirements.

(f) This section shall become operative on January 1, 2016.

(g) This section shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.

SEC. 2.5. Section 10083 is added to the Insurance Code, to read:

10083. (a) The offer of coverage required by Section 10081 may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. If the offer of coverage is mailed to the named insured or applicant, it shall be mailed to the mailing address shown on the policy of residential property insurance or on the application. The offer may be made electronically pursuant to Section 38.5.

(1) If the offer is made by a nonparticipating insurer as defined in Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(2) If the offer is made by a participating insurer as defined by Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage

begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

If you choose not to accept this offer within the 30-day period, you may apply for earthquake coverage at a later date.

Your insurance company contracts with the California Earthquake Authority (CEA) to offer earthquake insurance to its customers. For an additional premium, you can choose CEA coverage options such as higher limits for Contents or Additional Living Expenses, increased building code upgrade limits, or a lower deductible. You can also choose to buy certain CEA coverages separately.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(b) When the insurer, agent, or broker establishes delivery of the disclosure form by obtaining the signature of the applicant or insured, or when an insurer, agent, or broker provides the applicant with the disclosure form and the applicant does not return a signed acknowledgment of receipt within 60 days of the date it was provided, there shall be a conclusive presumption that the insurer, agent, or broker has complied with the disclosure requirements of this section.

(c) The offer may contain additional provisions not in conflict with or in derogation of this section.

(d) The commissioner may only approve modifications to the language prescribed in subdivision (a) if all of the following conditions are met:

(1) The modifications are not in conflict with or in derogation of any provision of this section or Section 10089.

(2) The modifications are necessary to ensure that the disclosure statement accurately reflects the coverage actually provided by the policy being offered.

(3) The modifications are strictly limited to necessary changes so that the modified disclosure statement is otherwise identical to the disclosure statement prescribed in this section.

(e) Use of the language prescribed by this section, or modified language approved pursuant to subdivision (d), shall constitute compliance with the requirements of Section 10081 by an insurer subject to the requirements.

(f) (1) If an insurer issues or causes to be issued a policy with earthquake coverages other than the coverages specified in subdivisions (a) and (b) of Section 10089, pursuant to a rate application approved by the commissioner in accordance with subdivision (c) of Section 10089, no further or other offer of earthquake coverage as specified in subdivisions (a) and (b) of Section 10089 and no further or other notice of noncoverage is required by the insurer if both of the following apply:

(A) A renewal of that policy is offered.

(B) A written notice is provided with that renewal regarding additional earthquake coverage that is available.

(2) The form of the written notice in paragraph (1) shall be filed with the commissioner at least 30 days before its first use. The form shall not be used if the commissioner disapproves the form of the written notice within that period for being misleading or incomplete.

(g) This section shall become operative on January 1, 2016.

(h) This section shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.

SEC. 3. Section 10083 of the Insurance Code, as added by Section 13 of Chapter 369 of the Statutes of 2013, is amended to read:

10083. (a) The offer of coverage required by Section 10081 may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. If the offer of coverage is mailed to the named insured or applicant, it shall be mailed to the mailing address shown on the policy of residential property insurance or on the application.

(1) If the offer is made by a nonparticipating insurer as defined in Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(2) If the offer is made by a participating insurer as defined by Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

If you choose not to accept this offer within the 30-day period, you may apply for earthquake coverage at a later date.

Your insurance company contracts with the California Earthquake Authority (CEA) to offer earthquake insurance to its customers. For an additional premium, you can choose CEA coverage options such as higher limits for Contents or Additional Living Expenses, increased building code upgrade limits, or a lower deductible. You can also choose to buy certain CEA coverages separately.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(b) When the insurer, agent, or broker establishes delivery of the disclosure form by obtaining the signature of the applicant or insured, or when an insurer, agent, or broker provides the applicant with the disclosure form and the applicant does not return a signed acknowledgment of receipt within 60 days of the date it was provided, there shall be a conclusive presumption that the insurer, agent, or broker has complied with the disclosure requirements of this section.

(c) The offer may contain additional provisions not in conflict with or in derogation of this section.

(d) The commissioner may only approve modifications to the language prescribed in subdivision (a) if all of the following conditions are met:

(1) The modifications are not in conflict with or in derogation of any provision of this section or Section 10089.

(2) The modifications are necessary to ensure that the disclosure statement accurately reflects the coverage actually provided by the policy being offered.

(3) The modifications are strictly limited to necessary changes so that the modified disclosure statement is otherwise identical to the disclosure statement prescribed in this section.

(e) Use of the language prescribed by this section, or modified language approved pursuant to subdivision (d), shall constitute compliance with the requirements of Section 10081 by an insurer subject thereto.

(f) This section shall become operative on January 1, 2019.

SEC. 3.5. Section 10083 of the Insurance Code, as added by Section 13 of Chapter 369 of the Statutes of 2013, is amended to read:

10083. (a) The offer of coverage required by Section 10081 may be made prior to, concurrent with, or within 60 days following the issuance or renewal of a residential property insurance policy. If the offer of coverage is mailed to the named insured or applicant, it shall be mailed to the mailing address shown on the policy of residential property insurance or on the application.

(1) If the offer is made by a nonparticipating insurer as defined in Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(2) If the offer is made by a participating insurer as defined by Section 10089.5, the offer of earthquake coverage shall contain all of the following language in at least 10-point boldface type:

“Your residential property insurance policy does not cover earthquake damage to your home or its contents.

To cover earthquake damage to your home and its contents you need to purchase a separate earthquake insurance policy. The coverage provided by an earthquake insurance policy is different from, and typically more limited than, the coverage provided by your residential property insurance policy.

California law requires insurance companies to offer earthquake insurance in conjunction with a residential property insurance policy. If you do not accept the offer of earthquake insurance below within 30 days of the mailing of this notice, your insurance company shall presume that you have not accepted this offer of earthquake insurance.

You may purchase earthquake insurance coverage on the following terms:

(A) Amount of Dwelling/Building Coverage Limit:

(B) Deductible: _____

(C) Contents Coverage Limit: _____

(D) Additional Living Expenses Coverage Limit:

(E) Estimated Annual Premium: _____

The deductible represents the amount of damage your covered property must incur before the earthquake insurance coverage begins. If your covered loss is less than the applicable deductible, you may not receive any payment.

If you choose not to accept this offer within the 30-day period, you may apply for earthquake coverage at a later date.

Your insurance company contracts with the California Earthquake Authority (CEA) to offer earthquake insurance to its customers. For an additional premium, you can choose CEA coverage options such as higher limits for Contents or Additional Living Expenses, increased building code upgrade limits, or a lower deductible. You can also choose to buy certain CEA coverages separately.

Contact your insurance agent or your insurance company to obtain details regarding this offer of earthquake insurance and other coverage options.”

(b) When the insurer, agent, or broker establishes delivery of the disclosure form by obtaining the signature of the applicant or insured, or when an insurer, agent, or broker provides the applicant with the disclosure form and the applicant does not return a signed acknowledgment of receipt within 60 days of the date it was provided, there shall be a conclusive presumption that the insurer, agent, or broker has complied with the disclosure requirements of this section.

(c) The offer may contain additional provisions not in conflict with or in derogation of this section.

(d) The commissioner may only approve modifications to the language prescribed in subdivision (a) if all of the following conditions are met:

(1) The modifications are not in conflict with or in derogation of any provision of this section or Section 10089.

(2) The modifications are necessary to ensure that the disclosure statement accurately reflects the coverage actually provided by the policy being offered.

(3) The modifications are strictly limited to necessary changes so that the modified disclosure statement is otherwise identical to the disclosure statement prescribed in this section.

(e) Use of the language prescribed by this section, or modified language approved pursuant to subdivision (d), shall constitute compliance with the requirements of Section 10081 by an insurer subject thereto.

(f) (1) If an insurer issues or causes to be issued a policy with earthquake coverages other than the coverages specified in subdivisions (a) and (b) of Section 10089, pursuant to a rate application approved by the commissioner in accordance with subdivision (c) of Section 10089, no further or other offer of earthquake coverage as specified in subdivisions (a) and (b) of Section 10089 and no further or other notice of noncoverage is required by the insurer if both of the following apply:

(A) A renewal of that policy is offered.

(B) A written notice is provided with that renewal regarding additional earthquake coverage that is available.

(2) The form of the written notice in paragraph (1) shall be filed with the commissioner at least 30 days before its first use. The form shall not be used if the commissioner disapproves the form of the written notice within that period for being misleading or incomplete.

(g) This section shall become operative on January 1, 2019.

SEC. 4. Section 10086 of the Insurance Code, as amended by Section 14 of Chapter 369 of the Statutes of 2013, is amended to read:

10086. (a) If an offer of earthquake coverage is accepted, the coverage shall be continued at the applicable rates and conditions for the policy term, provided the policy of residential property insurance is not terminated by the named insured or insurer.

(1) At any renewal, an insurer may modify the terms and conditions of an existing policy, rider, or endorsement providing coverage against loss or damage caused by the peril of earthquake if the modified terms and conditions provide the minimum coverages required by Section 10089.

(2) An insurer that modifies the terms and conditions of an existing policy, rider, or endorsement shall provide the insured with the renewal notice in a stand-alone disclosure document stating the changes in the terms and conditions of the insured's

existing policy, rider, or endorsement. The offer of renewal may be made electronically pursuant to Section 38.5. Proof of mailing of the disclosure document by first-class mail to a named insured at the mailing address shown on the policy or application, or proof consistent with Section 38.5 that the offer of renewal of coverage was sent to the named insured or applicant by electronic transmission, creates a conclusive presumption that the disclosure document was provided. The disclosure shall include the following statement in 14-point boldface type:

“THE COVERAGE IN THE POLICY WE ARE OFFERING YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND SUBSTANTIALLY DIFFERS FROM THE COVERAGES PROVIDED BY YOUR HOMEOWNERS’ POLICY. INSURANCE COMPANIES ARE ALLOWED TO RENEW EARTHQUAKE INSURANCE POLICIES WITH COVERAGE THAT IS REDUCED FROM THE COVERAGE YOU PREVIOUSLY PURCHASED. YOU MAY REQUEST A SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR TO MAKING A DECISION TO ACCEPT THIS RENEWAL, AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE COPY SHALL NOT CHANGE OR EXTEND THE POLICY EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE. A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS NOTICE.”

The commissioner shall approve the form of the summary at the time he or she approves the policy. The summary shall include the information contained in subdivision (a) of Section 10083, and may be included with the renewal notice in standard type.

The commissioner may approve substantially similar disclosure forms if necessary to accurately disclose relevant information to the policyholder. The commissioner may also approve disclosure forms substantially similar to the disclosure statement required by Section 10083 if necessary to accurately disclose relevant information to the policyholder.

(3) If the earthquake coverage is provided by a policy issued by the California Earthquake Authority, the following disclosure shall be provided in 14-point boldface type:

“CALIFORNIA EARTHQUAKE AUTHORITY POLICY
DISCLOSURE

THIS POLICY IS BEING PURCHASED FROM THE CALIFORNIA EARTHQUAKE AUTHORITY (“CEA”). THE COVERAGE IN THIS CEA POLICY SUBSTANTIALLY DIFFERS FROM THE COVERAGES PROVIDED IN YOUR HOMEOWNER’S POLICY. THE CEA IS NOT PART OF OR ASSOCIATED WITH YOUR HOMEOWNER’S INSURANCE COMPANY. IF LOSSES AS A RESULT OF AN EARTHQUAKE OR A SERIES OF EARTHQUAKES EXCEED THE AVAILABLE RESOURCES OF THE CEA, THIS POLICY IS NOT COVERED BY THE CALIFORNIA INSURANCE GUARANTY ASSOCIATION. THEREFORE, THE CALIFORNIA INSURANCE GUARANTY ASSOCIATION WILL NOT PAY YOUR CLAIMS OR PROTECT YOUR ASSETS IF THE CEA BECOMES INSOLVENT AND IS UNABLE TO MAKE PAYMENTS AS PROMISED. IN ADDITION, YOUR CEA POLICY MAY BE SUBJECT TO FUTURE SURCHARGES OF THE POLICY PREMIUM IN CERTAIN CASES WHERE AN EARTHQUAKE OR SERIES OF EARTHQUAKES HAS EXCEEDED AVAILABLE RESOURCES TO PAY CLAIMS. IN THAT CASE, THIS MEANS THAT IN ADDITION TO THE ANNUAL PREMIUM, YOU MAY BE CHARGED UP TO AN ADDITIONAL 20% OF THE PREMIUM.”

(b) If the offer is not accepted, the insurer or any affiliated insurer shall be required on an every other year basis to offer earthquake coverage in connection with any continuation, renewal, or reinstatement of the policy following any lapse thereof, or with respect to any other policy that extends, changes, supersedes, or replaces the policy of residential property insurance. The offer may be made electronically pursuant to Section 38.5.

(c) Nothing in this section shall preclude the named insured from terminating the earthquake coverage at any time.

(d) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

SEC. 5. Section 10086 is added to the Insurance Code, to read:

10086. (a) If an offer of earthquake coverage, made pursuant to Section 10081, is accepted, the coverage shall be continued at the applicable rates and conditions for the policy term, provided the policy of residential property insurance is not terminated by the named insured or insurer.

(1) At any renewal, an insurer may modify the terms and conditions of an existing policy, rider, or endorsement providing coverage against loss or damage caused by the peril of earthquake if the modified terms and conditions provide the minimum coverages required by Section 10089.

(2) An insurer that modifies the terms and conditions of an existing policy, rider, or endorsement shall provide the insured with the renewal notice in a stand-alone disclosure document stating the changes in the terms and conditions of the insured's existing policy, rider, or endorsement. The offer of renewal may be made electronically pursuant to Section 38.5. Proof of mailing of the disclosure document by first-class mail to a named insured at the mailing address shown on the policy or application, or proof consistent with Section 38.5 that the offer of renewal of coverage was sent to the named insured or applicant by electronic transmission, creates a conclusive presumption that the disclosure document was provided. The disclosure shall include the following statement in 14-point boldface type:

“THE COVERAGE IN THE POLICY WE ARE OFFERING YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND SUBSTANTIALLY DIFFERS FROM THE COVERAGES PROVIDED BY YOUR HOMEOWNERS’ POLICY. INSURANCE COMPANIES ARE ALLOWED TO RENEW EARTHQUAKE INSURANCE POLICIES WITH COVERAGE THAT IS REDUCED FROM THE COVERAGE YOU PREVIOUSLY PURCHASED. YOU MAY REQUEST A SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR TO MAKING A DECISION TO ACCEPT THIS RENEWAL, AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE COPY SHALL NOT CHANGE OR EXTEND THE POLICY EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE. A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS NOTICE.”

The commissioner shall approve the form of the summary at the time he or she approves the policy. The summary shall include the information contained in subdivision (a) of Section 10083, and may be included with the renewal notice in standard type.

The commissioner may approve substantially similar disclosure forms if necessary to accurately disclose relevant information to the policyholder. The commissioner may also approve disclosure forms substantially similar to the disclosure statement required by Section 10083 if necessary to accurately disclose relevant information to the policyholder.

(b) If the offer of earthquake coverage made pursuant to Section 10081 is not accepted, the insurer or any affiliated insurer shall be required on an every other year basis to offer earthquake coverage in connection with any continuation, renewal, or reinstatement of the policy following any lapse thereof, or with respect to any other policy that extends, changes, supersedes, or replaces the policy of residential property insurance. The offer may be made electronically pursuant to Section 38.5.

(c) Nothing in this section shall preclude the named insured from terminating the earthquake coverage at any time.

(d) This section shall become operative on January 1, 2016.

(e) This section shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.

SEC. 6. Section 10086 of the Insurance Code, as added by Section 15 of Chapter 369 of the Statutes of 2013, is amended to read:

10086. (a) If an offer of earthquake coverage, made pursuant to Section 10081, is accepted, the coverage shall be continued at the applicable rates and conditions for the policy term, provided the policy of residential property insurance is not terminated by the named insured or insurer.

(1) At any renewal, an insurer may modify the terms and conditions of an existing policy, rider, or endorsement providing coverage against loss or damage caused by the peril of earthquake if the modified terms and conditions provide the minimum coverages required by Section 10089.

(2) An insurer that modifies the terms and conditions of an existing policy, rider, or endorsement shall provide the insured

with the renewal notice in a stand-alone disclosure document stating the changes in the terms and conditions of the insured's existing policy, rider, or endorsement. Proof of mailing of the disclosure document by first-class mail to a named insured at the mailing address shown on the policy or application creates a conclusive presumption that the disclosure document was provided. The disclosure shall include the following statement in 14-point boldface type:

“THE COVERAGE IN THE POLICY WE ARE OFFERING YOU WITH THIS RENEWAL HAS BEEN REDUCED, AND SUBSTANTIALLY DIFFERS FROM THE COVERAGES PROVIDED BY YOUR HOMEOWNERS’ POLICY. INSURANCE COMPANIES ARE ALLOWED TO RENEW EARTHQUAKE INSURANCE POLICIES WITH COVERAGE THAT IS REDUCED FROM THE COVERAGE YOU PREVIOUSLY PURCHASED. YOU MAY REQUEST A SAMPLE COPY OF THIS NEW POLICY TO REVIEW PRIOR TO MAKING A DECISION TO ACCEPT THIS RENEWAL, AND WE WILL MAIL OR DELIVER IT TO YOU WITHIN 14 DAYS OF YOUR REQUEST. A REQUEST FOR THE SAMPLE COPY SHALL NOT CHANGE OR EXTEND THE POLICY EXPIRATION DATE SPECIFIED IN THE RENEWAL NOTICE. A SUMMARY OF THE CHANGES IS INCLUDED WITH THIS NOTICE.”

The commissioner shall approve the form of the summary at the time he or she approves the policy. The summary shall include the information contained in subdivision (a) of Section 10083, and may be included with the renewal notice in standard type.

The commissioner may approve substantially similar disclosure forms if necessary to accurately disclose relevant information to the policyholder. The commissioner may also approve disclosure forms substantially similar to the disclosure statement required by Section 10083 if necessary to accurately disclose relevant information to the policyholder.

(b) If the offer of earthquake coverage made pursuant to Section 10081 is not accepted, the insurer or any affiliated insurer shall be required on an every other year basis to offer earthquake coverage in connection with any continuation, renewal, or reinstatement of

the policy following any lapse thereof, or with respect to any other policy that extends, changes, supersedes, or replaces the policy of residential property insurance.

(c) Nothing in this section shall preclude the named insured from terminating the earthquake coverage at any time.

(d) This section shall become operative on January 1, 2019.

SEC. 7. Section 10089.6 of the Insurance Code is amended to read:

10089.6. (a) There is hereby created the California Earthquake Authority, which shall be administered under the authority of the commissioner and have the powers conferred by this chapter. The authority shall be authorized to transact insurance in this state as necessary to sell policies of basic residential earthquake insurance in the manner set forth in Sections 10089.26, 10089.27, and 10089.28. The authority shall have no authority to transact any other type of insurance business.

(b) (1) The investments of the authority shall be limited to those securities eligible under Section 16430 of the Government Code.

(2) The rights, obligations, and duties owed by the authority to its insureds, beneficiaries of insureds, and applicants for insurance shall be the same as the rights, obligations, and duties owed by insurers to its insureds, beneficiaries of insureds, and applicants for insurance under common law, regulations, and statutes. The authority shall be liable to its insureds, beneficiaries of insureds, and applicants for insurance as an insurer is liable to its insureds, beneficiaries of insureds, and applicants for insurance under common law, regulations, and statutes.

(c) The operating expenses of the authority shall be capped at not more than 6 percent of the premium income received by the authority. The funds shall be available to pay any advocacy fees awarded in a proceeding under subdivision (c) of Section 10089.11.

(d) For purposes of this section, the term “operating expenses of the authority” excludes solely the following:

(1) The costs of and transaction expenses associated with risk-transfer purchases, including the purchase of reinsurance and with capital-market contracts.

(2) The expense of securing and repaying bonds.

(3) The cost of repayment of bonds guaranteed, insured, or otherwise backed by any department or agency of the United States or of this state, or by any private entity.

(4) Payments to third parties for all of the following services provided to the authority:

- (A) Investment.
- (B) Loss-modeling.
- (C) Legal services.

(5) Costs associated with the authority's efforts to acquaint the public with and market authority products, promote earthquake preparedness, and earthquake-loss mitigation under the authority's duly adopted strategic plan.

(6) Producer compensation.

(7) Participating insurer fees and reimbursement amounts arising under written contracts.

(8) Amounts paid by the authority to support research in seismic science and seismic engineering.

(9) Loans, grants, and expenses to support and maintain the authority's earthquake loss-mitigation goals and programs, whether conducted by the authority alone or in collaboration with or by other persons.

(10) The costs of and loss-adjustment expenses associated with adjusting and paying policyholder claims for earthquake losses that are incurred by the authority under its earthquake insurance policies, including all costs and expenses associated with claim-related litigation, provided that all of those costs and expenses shall be reported to the Legislature in the manner required by subdivision (e) of Section 10089.13.

SEC. 8. Section 10089.26 of the Insurance Code is amended to read:

10089.26. (a) The authority shall issue policies of basic residential earthquake insurance, including an option for earthquake loss assessment policies for individual condominium unit properties, to any owner of a qualifying residential property, as long as the owner has secured a policy of residential property insurance from a participating insurer.

(1) For purposes of this section, earthquake loss assessment coverage shall be issued in a minimum amount of fifty thousand dollars (\$50,000) for individual condominium units valued at more than one hundred thirty-five thousand dollars (\$135,000). Earthquake loss assessment coverage shall be issued in a minimum amount of twenty-five thousand dollars (\$25,000) for individual condominium units of one hundred thirty-five thousand dollars

(\$135,000) in value or less. The value of the land shall be excluded when determining the value of the condominium, as it relates to the earthquake loss assessment coverage offered by the authority.

(2) The panel shall submit to the board, and the board shall approve, rates for earthquake loss assessment coverage that reasonably balance the earthquake loss assessment coverages offered and the potential exposure to earthquake loss resulting from an earthquake loss assessment policy as compared to the coverages offered and the potential exposure to earthquake loss resulting from residential property other than individual condominium policies.

It is the intent of the Legislature, to the extent practicable, that rates charged by the authority to condominium loss assessment policyholders and residential property owner policyholders are treated equitably, and that a proportionate share of premiums is paid for potential exposure to loss, to the authority.

(b) Nothing in this section shall prohibit a participating or nonparticipating insurer from offering a condominium earthquake loss assessment policy for different amounts of coverage other than those offered by the authority.

SEC. 9. Section 10089.28 of the Insurance Code is amended to read:

10089.28. (a) All policies of residential earthquake insurance provided by the authority shall be written by the authority. Authority policies shall be marketed and policyholders serviced by the participating insurer that writes the underlying policy of residential property insurance, and participating insurers shall be reasonably compensated for the claims and policyholder services they provide on behalf of the authority. Authority services may be performed on behalf of the authority in any reasonable manner by the participating insurer that is in compliance with statutory, regulatory, and case laws regarding claims handling practices; provided, however, where the authority has promulgated specific procedures to govern its operations, the participating insurer shall conform its practices to those procedures. The authority procedures shall comply with statutory, regulatory, and case law governing claims handling practices. Nothing in this provision shall be deemed or construed to affect any duty or liability of the authority or participating carrier as set forth in paragraphs (2) and (3) of subdivision (e) of Section 10089.7.

(b) The participating insurer shall notify each of its insureds that the authority is the provider of earthquake coverage under the policy. The form and method of notice shall meet standards established by the commissioner by regulation. The authority shall provide to participating insurers appropriate applications and forms and shall maintain records of all policies written, moneys received, and claims paid.

(c) The duty of an agent or broker to investigate the financial condition of the authority before placement of insurance shall be the same as the duty of an agent or broker to investigate the financial condition of an admitted insurer before placement of a policy of insurance.

(d) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

SEC. 10. Section 10089.28 is added to the Insurance Code, to read:

10089.28. (a) All policies of residential earthquake insurance provided by the authority shall be written by the authority. Authority policies shall be marketed and policyholders serviced by the participating insurer that writes the underlying policy of residential property insurance, and participating insurers shall be reasonably compensated for the claims and policyholder services they provide on behalf of the authority. Authority services may be performed on behalf of the authority in any reasonable manner by the participating insurer that is in compliance with statutory, regulatory, and case law regarding claims handling practices; provided, however, where the authority has promulgated specific procedures to govern its operations, the participating insurer shall conform its practices to those procedures. The authority procedures shall comply with statutory, regulatory, and case law governing claims handling practices. Nothing in this provision shall be deemed or construed to affect any duty or liability of the authority or participating carrier as set forth in paragraphs (2) and (3) of subdivision (e) of Section 10089.7.

(b) Concurrent with the issuance or renewal by the authority of a residential earthquake insurance policy, the following disclosure shall be provided to the insured in 14-point boldface type:

“California Earthquake Authority Policy Disclosure

You have purchased a California Earthquake Authority (CEA) earthquake insurance policy, which can help you cover the cost of repairing damage to your property and possessions caused by an earthquake.

The CEA is not part of your homeowners' insurance company.

Please keep in mind these important things about your CEA insurance policy:

1. CEA policy coverages are different from the coverages provided in your homeowners' insurance policy. For example, this policy does not cover earthquake damage to swimming pools, and it may provide more limited coverage for chimneys, outbuildings, and masonry fences. These are examples of possible differences between your CEA policy and your homeowners' policy, and you should consult your CEA policy to understand the types of losses that are limited or excluded and those that are covered.

2. If CEA's liability for earthquake losses exceeds the CEA's available resources the CEA may reduce its payment to you or pay you in installments. This policy is not covered by the California Insurance Guarantee Association, and therefore, the California Insurance Guarantee Association will not pay your claims if the CEA becomes insolvent and is unable to make payments as promised.

3. In certain cases, your CEA policy premium may be subject to future surcharges if the CEA's obligations to pay earthquake losses rise to a predefined level. In that case, in addition to your annual premium you may be charged up to an additional 20% of that premium."

(c) The authority shall provide to participating insurers appropriate applications and forms and shall maintain records of all policies written, moneys received, and claims paid.

(d) The duty of an agent or broker to investigate the financial condition of the authority before placement of insurance shall be the same as the duty of an agent or broker to investigate the financial condition of an admitted insurer before placement of a policy of insurance.

(e) This section shall become operative on January 1, 2016.

SEC. 11. Section 10089.42 is added to the Insurance Code, to read:

10089.42. (a) At least once each year a participating insurer shall provide each of its residential property insureds with marketing documents produced at the authority's expense.

(b) This section shall become operative on January 1, 2016.

SEC. 12. Section 1.5 of this bill incorporates amendments to Section 10083 of the Insurance Code, as amended by Section 12 of Chapter 369 of the Statutes of 2013, proposed by both this bill and Assembly Bill 2735. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2015, (2) each bill amends Section 10083 of the Insurance Code, as amended by Section 12 of Chapter 369 of the Statutes of 2013, and (3) this bill is enacted after Assembly Bill 2735, in which case Section 1 of this bill shall not become operative.

SEC. 13. Section 2.5 of this bill incorporates Section 10083 of the Insurance Code, as proposed to be added by this bill and amended by Assembly Bill 2735. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2015, and (2) this bill adds Section 10083 to the Insurance Code and Assembly Bill 2735 amends Section 10083 of the Insurance Code, in which case Section 2 of this bill shall not become operative.

SEC. 14. Section 3.5 of this bill incorporates amendments to Section 10083 of the Insurance Code, as added by Section 13 of Chapter 369 of the Statutes of 2013, proposed by both this bill and Assembly Bill 2735. It shall only become operative if (1) both bills are enacted and become effective on or before January 1, 2015, and (2) each bill amends Section 10083 of the Insurance Code, as added by Section 13 of Chapter 369 of the Statutes of 2013, and (3) this bill is enacted after Assembly Bill 2735, in which case Section 3 of this bill shall not become operative.

Approved _____, 2014

Governor